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Summary:

Grand Traverse County, Michigan; General Obligation

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US\$39.87 mil GO ltd tax bnds ser 2021A due 09/01/2034

<i>Long Term Rating</i>	AA/Stable	New
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US\$5.45 mil GO ltd tax bnds (Grand Traverse Pavilions) ser 2021B due 09/01/2039

<i>Long Term Rating</i>	AA/Stable	New
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Grand Traverse Cnty, Michigan

Grand Traverse Cnty, Michigan

Peninsula Twp, Michigan

Township of East Bay, Michigan

Grand Traverse Cnty GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Grand Traverse County, Mich.'s expected \$39.9 million series 2021A and \$5.5 million series 2021B general obligation (GO) limited-tax bonds (federally taxable). At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on Grand Traverse County's existing general obligation (GO) bonds, either issued by or for the county by various issuers. The outlook is stable.

The county's full-faith-and-credit GO pledge, along with its ability to levy ad valorem taxes on all taxable property, subject to statutory limitations, secures the series 2021A and B bonds and the county's GO debt outstanding. Given that we factor the county's revenue-raising ability into our analysis, and the county has fungibility of resources and does not levy taxes on a narrower base, we rate the limited-tax GO debt on par with our view of the county's general creditworthiness. Officials expects to use the series 2021A and 2021B bond proceeds to finance a portion of the unfunded pension liability for the Grand Traverse County and Grand Traverse County Pavilions defined-benefit pension plans, respectively.

The county has multiple bond issues outstanding, with structures that pledge its limited-tax GO support, while additional underlying taxing units also pledge limited-tax GO support to either portions of or all the debt service. In each case, each party pledges to annually levy ad valorem taxes within authorized millages to fund its obligations and, to the extent that taxes are insufficient, all other available revenue sources are pledged for payment by the county. In each case, our rating is ultimately based on the county's limited-tax GO pledge, which we view as the stronger pledge.

Credit overview

Grand Traverse County maintains a strong financial profile, supported by policies and practices that allow the county to maintain operationally balanced operations through various economic cycles. It continues to demonstrate its

commitment to address its pension and other postemployment benefit (OPEB) obligations with the pension obligation bond (POB) issuance that is expected to reduce future pension costs. Before, it was able to overfund its actuarially determined contribution and maintain strong surpluses and available reserves that stood at 65% of general fund expenditures in 2020. The stable outlook reflects our view that the county will maintain very strong reserves. Its stable and growing economy provides additional rating stability.

The rating reflects our assessment of the following factors, specifically the county's:

- Status as a growing regional economic hub and tourist destination, serving northwestern Michigan, continuing to see commercial and residential developments that we believe will further increase the county's already high property wealth and real estate tax revenues;
- Good financial policies and practices that include comprehensive long-term budget planning and a reserve policy that establishes a minimum unrestricted fund balance of 25% to mitigate unforeseen budget pressures, coupled with benefits from a strong institutional framework;
- Long-standing demonstrated track record of outperforming the budget, resulting in ongoing increases in reserves that is expected to continue in 2021;
- Strong debt and contingency liability profile given the expected significant reduction in pension obligations and limited significant new-money debt needs.

Environmental, social, and governance factors

We have analyzed environmental, social, and governance (ESG) risks relative to the county's economy, management, financial measures, and debt and liability profile and have determined all factors are neutral within our credit rating analysis. The county is near a few lakes, so it is vulnerable to fluctuations with water levels rising and potential flooding that could pose an environmental risk, although it has not experienced any such occurrence in recent memory.

Stable Outlook

Upside scenario

If the county's economic indicators were to improve to levels commensurate with those of its higher-rated peers, holding all other factors equal, we could raise the rating.

Downside scenario

We could lower the rating if the county were to draw down reserves to levels no longer commensurate with those of similarly rated peers.

Credit Opinion

Incomes show signs of improvement, reflecting ongoing economic growth, but remain below those of its higher rated peers

Grand Traverse County serves a population of 95,238 (2020 Census), which increased slightly year over year. Incomes measured as projected per capita effective buying income as a percentage of the U.S. are 108.8%, which, while up from

103.5%, continue to trail its peers, in our opinion. Employment opportunities in the county include health care, education, and government services and management reports no major disruptions. The county unemployment rate spiked (25.4%) in April 2020 but was down to 4.4% as of July 2021. The county is widely recognized as an agricultural and tourist area with year-round recreational activities. The principal agricultural business is the growing and processing of cherries, grapes, and other fruit crops. As a result of the tourist business, the county is a major retail area of northwestern Michigan. Officials report tourism in the region continues to grow. The most recent economic forecast from S&P Global Economics indicates that the national economic outlook has cooled somewhat but remains resilient (see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021, on RatingsDirect.) Tax base growth is also expected given recent trends and continued residential and commercial development. Traverse City, the county seat, continues to expand, with several multimillion-dollar projects under construction, including additional housing stock. We believe that the ongoing developments will further bolster market values, which stood at \$15.6 million in 2021 and equate to \$163,646. Overall, we expect these trends to continue in the near term, and do not anticipate changes in our view of Grand Traverse's economy.

Strong financial management practices supported by conservative budgeting practices, coupled with prudent fiscal planning and policies

Highlights include:

- Strong revenue and expenditure assumptions, with the use of 10 years' history and outside sources of information when forecasting trends;
- Quarterly detailed budget-to-actual reporting to the board, with budgetary amendments as needed;
- Maintenance of a detailed five-year financial plan used for planning purposes, shared with the board, and updated annually;
- A formal investment management policy that mirrors state guidelines, with quarterly reporting to the board on investment holdings and earnings; and
- A formal policy of maintaining unassigned reserves in excess of 25% of budgeted expenditures as a sufficient cushion for budgetary pressures. The board recently updated this policy to ensure sufficient cash flow in the event of an economic downturn.

The county determines its capital improvement needs from its periodic facilities and building audit (most recently done in 2019), and during each year's budget it includes expected projects and spending. It does not maintain a debt management policy, but adheres to state guidelines. Grand Traverse is compliant with its policies. Furthermore, management is taking steps to ensure the county mitigates risks associated with cyber-attacks.

The institutional framework score for Michigan counties with a population greater than 4,000 is strong.

Expectation for continued positive operating results and the maintenance of both strong budgetary performance and very strong budgetary flexibility and liquidity

Historically, the county maintains balanced operations even though each year it assumes drawing down on its reserves. The 2022 budget is in the works, but we believe management will continue is conservative budgetary practices. About \$18 million in American Rescue Plan is allocated to the county and \$9 million has already been received, providing ample financial flexibility. The county has yet to determine how the funds will be used, but will be

holding study sessions to discuss the matter.

The \$32.6 million 2021 budget is expected to achieve another positive result, according to management, against a budgeted \$851,000 operating deficit. Real estate taxes account for over 60% of revenues and continue to ensure financial stability.

Operating surpluses in the general fund and across all the total governmental funds over the past two years averaged \$2 million and \$3 million, respectively. We made analytical adjustments to operations to account for recurring transfers from the general fund to the health fund and other nongovernmental funds. At 2020-year-end, available fund balance increased to \$26 million, or 65% of expenditures from \$21 million, or 56.4% in 2018. The available fund balance includes \$16.1 million (39.9% of expenditures) in the general fund and \$10.0 million (25%) that is outside the general fund but legally available for operations.

The very strong liquidity reflects the absence of expected spend-down and 2020 available cash of \$47.8 million, which reflects 84.1% of total governmental expenditures and 44x of governmental debt service. Since debt service will increase following the series 2021A and 2021B issuance, available cash (2020) will cover 9.2x of governmental debt service. We still consider this very strong.

In our opinion, the county's outstanding privately placed debt does not expose it to contingent liability risks.

Significant reduction in pension obligation that will improve funded ratio but shift to debt burden, albeit manageable, in our opinion

Following the series 2021A and 2021B bonds, the county's net direct debt will increase to \$74 million from \$32 million, or 125% of government revenues from approximately 54%. Debt service carrying charge is estimated to increase to roughly \$5.2 million (9.2% of total governmental expenditures) from \$1 million (2%) in 2022. With no additional new-money debt plans, we believe that the county will be able to absorb the increase without weakening its financial profile.

The purpose of the obligation bond is to significantly increase the funding of its pension plans. Based on state requirements, only 95% of the unfunded actuarial accrued liability can be funded with bond proceeds. The county meets the requirement based on its analysis, which uses the actuarial valuation. However, for our analysis, we used the GASB reporting. Therefore, the funded ratio on the Grand Traverse County plan will improve to 100% from 61.6% and the Grand Traverse County Pavilions plan to 94.8% from 83.2%. Estimated near-term carrying charges for pension plus OPEBs are projected to decrease to 3.7% from 11.8% as the cost will move to increased debt service payments. Expected budgetary savings in the near term are 0.8%. Pension contribution currently escalates with payroll, but with prospects toward contribution escalation risk, expected savings are being used to make debt service level dollar over approximately the same period. As noted in our report, "Pension Obligation Bond Issuances Continue To Increase In 2021," (Oct. 14, 2021), the county's POB issuances will add to pension cost volatility and that potential savings from the transaction could be eliminated if there is a market correction that generates new unfunded liabilities. A discount rate of 7.35%, is still higher than the industry average and could lead to contribution volatility.

The county participated in the following agent multiple-employer pension plans as of Dec. 31, 2020, administered through Municipal Employees' Retirement System (MERS):

- Grand Traverse County Defined Benefit Pension Plan (DBPP): 61.6% funded, with a net pension liability (NPL) of \$37.4 million.
- Grand Traverse Pavilions (DBPP): 83.2% funded, with a NPL of \$7.9 million.
- Grand Traverse County Retiree Health Care Plan: 54.35% funded, with a proportionate share of the net OPEB liability of \$1.1 million.
- Grand Traverse County Pavilions Retiree Health Care Plan: 72.37% funded with a proportionate share of the net OPEB liability of \$465,052
- The county also offers defined-contribution plans for certain employees.

The county has proactively managed its pension costs and funded excess of its required contributions at least for the past three years. To date, it has closed almost all its defined-benefit pension plans to new hires and offers them only defined-benefit contributions. It also provides OPEBs to eligible retirees from the maintenance of a trust fund which it funds above its pay-as-you-go rate.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of October 25, 2021)

Grand Traverse Cnty Bldg Auth, Michigan

Grand Traverse Cnty, Michigan

Grand Traverse Cnty Bldg Auth (Grand Traverse Cnty) GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Grand Traverse Cnty, Michigan

Blair Twp, Michigan

Grand Traverse Cnty, Michigan

Grand Traverse Cnty (Blair Twp sys)

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Grand Traverse Cnty, Michigan

Grand Traverse Cnty, Michigan

Peninsula Twp, Michigan

Township of East Bay, Michigan

Grand Traverse Cnty (East Bay sys & Peninsula sys)

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Ratings Detail (As Of October 25, 2021) (cont.)

Grand Traverse Cnty, Michigan

Grand Traverse Cnty, Michigan

Township of East Bay, Michigan

Grand Traverse Cnty (East Bay sys)

Long Term Rating

AA/Stable

Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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